

**REPORT OF THE AUDIT OF THE
WOLFE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

June 17, 2003



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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Raymond Hurst, Wolfe County Judge/Executive

Honorable H. V. Dunn, Wolfe County Sheriff

Members of the Wolfe County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Wolfe County Sheriff's Settlement - 2002 Taxes as of June 17, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Wolfe County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
WOLFE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

June 17, 2003

ROSS & COMPANY, PLLC
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WOLFE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

June 17, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Wolfe County Sheriff as of June 17, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$925,696 for the districts for 2002 taxes, retaining commissions of \$38,802 to operate the Sheriff's office. The Sheriff distributed taxes of \$869,901 to the districts for 2002 Taxes. Taxes of \$284 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Wolfe County Sheriff's Settlement - 2002 Taxes as of June 17, 2003. This tax settlement is the responsibility of the Wolfe County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Wolfe County Sheriff's taxes charged, credited, and paid as of June 17, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Raymond Hurst, Wolfe County Judge/Executive
Honorable H. V. Dunn, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
November 6, 2003

WOLFE COUNTY
H. V. DUNN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

June 17, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 71,315	\$ 191,793	\$ 380,345	\$ 145,871
Tangible Personal Property	5,240	11,319	24,413	20,989
Intangible Personal Property				2,549
Fire Protection	2,703			
Increases Through Exonerations				222
Franchise Corporation	13,817	30,166	65,065	
Oil and Gas Property Taxes	2,254	6,062	12,022	4,611
Bank Franchises	10,227			
Penalties	809	2,110	4,189	1,681
Adjusted to Sheriff's Receipt	(1)	8	(1)	3
Gross Chargeable to Sheriff	<u>\$ 106,364</u>	<u>\$ 241,458</u>	<u>\$ 486,033</u>	<u>\$ 175,926</u>
<u>Credits</u>				
Exonerations	\$ 1,881	\$ 4,870	\$ 9,764	\$ 4,538
Discounts	1,073	2,748	5,472	2,308
Delinquents:				
Real Estate	4,272	11,260	22,331	8,564
Tangible Personal Property	102	343	739	554
Intangible Personal Property				4
Uncollected Franchise	196	316	785	
Delinquent Oil	43	115	228	87
Delinquent Gas	135	363	719	276
Total Credits	<u>\$ 7,701</u>	<u>\$ 20,015</u>	<u>\$ 40,038</u>	<u>\$ 16,331</u>
Taxes Collected	\$ 98,663	\$ 221,443	\$ 445,995	\$ 159,595
Less: Commissions *	<u>4,481</u>	<u>9,411</u>	<u>17,840</u>	<u>7,070</u>
Taxes Due	\$ 94,182	\$ 212,032	\$ 428,155	\$ 152,525
Taxes Paid	92,159	208,199	436,978	150,584
Commissions Refunded from School			18,019	
Refunds (Current and Prior Year)	<u>1,969</u>	<u>3,784</u>	<u>9,015</u>	<u>1,941</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 54</u>	<u>\$ 49</u>	<u>\$ 180</u>	<u>\$ 0</u>

* And ** See Page 4.

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
H. V. DUNN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
June 17, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	469,701
4% on	\$	445,995

** Special Taxing Districts:

Library District	\$	49
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WOLFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 17, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 17, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
June 17, 2003
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 11, 2002 through April 30, 2003.

Note 4. Interest Income

The Wolfe County Sheriff earned \$685 as interest income on 2002 taxes. As of November 6, 2003, the Sheriff owes \$83 in interest to the school district and \$133 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Wolfe County Sheriff collected \$6,966 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Wolfe County Sheriff collected \$460 of advertising costs and \$1140 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees was used to operate the Sheriff's office

COMMENTS AND RECOMMENDATIONS

WOLFE COUNTY
H. V. DUNN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of June 17, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “ that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2002 tax collections, Sheriff H. V. Dunn earned interest of \$685 on his tax account. As of November 6, 2003, Sheriff H. V. Dunn owes \$83 to the Wolfe County Board of Education and owes the fee account \$133. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff’s Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official’s control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

Sheriff’s Response:

None.

PRIOR YEAR:

None.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Wolfe County Sheriff's Settlement - 2002 Taxes as of June 17, 2003, and have issued our report thereon dated November 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Wolfe County Sheriff's Settlement - 2002 Taxes as of June 17, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wolfe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is also considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
November 6, 2003

